

GUIDANCE FOR DIRECTOR AND EXECUTIVE OFFICER QUALIFICATIONS

Minimum Banking Experience

The OCC requires all organizing groups and senior management teams to demonstrate sufficient banking experience necessary to successfully operate a national bank. The OCC grants a charter application only to a senior management team (including both the proposed management and directorate) that is considered strong. Strong management teams are usually characterized by:

- High-caliber senior executive officers with relevant prior experience necessary to implement the proposed business plan and exercise corrective action in response to changing internal and external factors, and
- Successful business and community leaders, including some with prior banking experience, who effectively oversee the management of the bank's activities in their capacity as directors.

Selection of the CEO

Selection of a qualified CEO is the organizing group's single most important decision affecting the success of the new bank. The proposed CEO should:

- Be involved actively in developing the proposed bank's business plan since the CEO must implement the proposed plan successfully once the bank opens.
- Have strong leadership skills, with experience managing a bank or similar financial institution successfully or successful experience as a bank officer in areas relevant to the proposed bank's marketing strategy and needs.
- Possess skills that complement those of the directors and other proposed members of the executive officer team, including extensive experience in bank operations or lending.

Selection of a CEO the OCC finds unqualified for the position, whose prior banking experience is unsatisfactory, or who otherwise is unacceptable reflects negatively on the organizers and will result in disapproval or revocation of preliminary conditional approval.

Decisions about a proposed CEO are based on a person's suitability for that position with a specific new bank and are not intended to determine eligibility for other jobs. The OCC does not grant approvals subject to the condition that the organizers propose a more suitable CEO.

Senior Executive Officers

The OCC expects each proposed executive officer to exhibit strong, relevant experience for the specific position for which he or she is proposed. While the lack of previous experience in a specific position may not disqualify a person for the position, the proposed officer must be able to demonstrate that he or she has the skill set (i.e., technical knowledge, skills, and ability) required to effectively execute the duties of the position.

The organizers must evaluate each proposed executive officer and provide information to the OCC about their selections (see the Management Official Guidelines in the “Background Investigations” booklet of the *Comptroller’s Licensing Manual*). The organizing group should include the following information in its application for each officer candidate:

- A job description outlining responsibilities for each officer position.
- A detailed outline of each candidate’s banking or other relevant experience.
- An assessment of each candidate’s qualifications for the position and his or her ability to implement the business plan.

The OCC will assess the strength of the senior executive officers by considering:

- The extent of the proposed candidate’s experience.
- His or her skill set for the position.
- The complexity of the proposed bank’s business plan.

After the OCC considers the qualifications of all proposed officers, the OCC will determine if the overall organizing group is strong.

If, after appropriate investigation and consideration of a proposed senior executive officer, the OCC objects to that person, he or she will not be allowed to assume that position in the bank. Objection to a proposed senior executive officer does not mean that the person may not be suitable for a different position in the same bank or a similar position in another bank. It means only that the person is not considered acceptable for the particular position for which he or she is proposed in that new national bank.

Directors

Each organizer and proposed director is responsible for understanding the chartering process and the role of a national bank director. The OCC expects each organizer and proposed director to review the "Charters" booklet in the *Comptroller's Licensing Manual* to become familiar with the chartering process. In addition, the OCC developed *The Director’s Book: The Role of a National Bank Director* as a reference tool to enable national bank directors to

understand their roles and responsibilities.¹ (See the attachment, “Duties and Responsibilities of National Bank Directors,” for highlights from *The Directors Book*.)

Strong directors must have the experience, competence, willingness, and ability to be active in overseeing the safety and soundness of the bank’s affairs. If the proposed directorate has limited banking experience or community involvement, the OCC will expect a stronger team of senior executive officers to compensate for deficiencies.

The OCC is likely to consider an organizing group’s banking experience to be satisfactory if at least a quarter of the bank’s outside directors (i.e., directors who are not senior executive officers) have recent experience as directors or executive officers of a well-run financial institution. “Recent experience” for this purpose generally means service for a minimum of two consecutive years, with at least part of this service within the five years immediately preceding filing of the charter application.

OCC encourages organizing groups to exceed these levels. The OCC may consider exceptions for certain proposals (for example, a proposed bank in a rural area² with noncomplex operations) and take into account mitigating circumstances, such as:

- Efforts to obtain directors with recent banking experience.
- The proposed board’s collective business expertise.
- Commitments or representations by the organizing group to obtain director education.

Director education and orientation are available from a variety of sources, including the proposed bank’s own management, bank consultants, or seminars or “colleges” for new directors offered by local and national industry associations.

To conclude that a representation or commitment for director education is satisfactory, the OCC requires the following elements to be present:

- A specific plan with timeframes.
- Initial training prior to the bank opening that focuses on the duties and responsibilities of new bank directors. This training should include the importance of an effective, independent (i.e., non-bank management) risk-monitoring program to assist the board in its oversight of the bank's risk management system. Prior to opening for business,

¹ *The Directors Book* is available on the OCC’s web site at www.occ.treas.gov/director.pdf or through the OCC’s Communications Division. The OCC also may provide a copy(ies) to the spokesperson prior to the prefiling meeting.

² Rural is defined as a site that is not located within a Metropolitan Statistical Area (MSA) or a Central City. The Office of Management and Budget (OMB’s) list of MSAs and Central Cities can be found on the Internet at <http://www.census.gov>. At the “Subjects A-Z” menu, click on “M,” then on Metropolitan Areas, and then on Metropolitan Area Definitions. Copies of the OMB list may also be obtained by requesting the most recent “List of Metropolitan Area Definitions” (accession no. PB96-180575) from National Technical Information Services (NTIS), Document Sales, 5205 Port Royal Road, Springfield, VA 22161, (703) 487-4650.

the OCC expects directors of a new bank to establish an audit function, a loan review program, and a compliance review function.

- Additional training during the first year of the bank's operations tailored to the directors' needs relative to the bank's proposed business plan.
- Ongoing education about new risks, products, and services.

Duties and Responsibilities of a National Bank Director¹

Highlights from *The Director's Book*

A bank's board of directors oversees the management of the bank's activities. The board of directors and management should understand that management works for the board -- the board does not work for management. The long-term health of a bank depends on a strong, independent, and attentive board. A board should evaluate its effectiveness periodically and determine whether it is taking steps necessary to fulfill its responsibilities. The board should consider orientation programs for new directors. Ongoing education programs that describe emerging industry developments, opportunities, and risks also are often helpful.

When searching for new bank directors, banks should seek individuals who will exercise independent judgment and actively participate in decision making. The principle qualities of an effective bank director include strength of character, an inquiring and independent mind, practical wisdom, and sound judgment.

In summary, the qualifications of a candidate seeking to become a member of the board of directors of a national bank include:

- Basic knowledge of the banking industry, the financial regulatory system, and the laws and regulations that govern the operation of an institution.
- A willingness to put the interests of the bank ahead of personal interests.
- A willingness to avoid conflicts of interest.
- Knowledge of the communities served by the bank.
- Background, knowledge, and experience in business or another discipline to oversee the bank.
- A willingness and ability to commit the time necessary to prepare for and regularly attend board and committee meetings.

The primary responsibilities of a board of directors of a national bank include:

- Being aware of the bank's operating environment. Directors should understand generally both the bank's business environment and the legal and regulatory framework within which the bank's activities operate.
- Hiring and retaining competent management. A profitable and sound bank usually is the result of talented and capable management.

¹ Source: *The Directors Book: The Role of a National Bank Director* dated March 1997.

- Maintaining an appropriate board structure. The board must ensure that it has an organizational structure in place to keep it informed and to provide it with adequate support.
- Monitoring operations. Although the board may depend on management's expertise to run the bank's daily operations, the board remains ultimately responsible for monitoring the operations of the bank.
- Overseeing business performance. Sound business performance is one of the board's primary objectives and responsibilities as well as a key indicator of management's success.
- Serving community credit needs. Every national bank is required to fulfill its responsibilities under the Community Reinvestment Act.

Potential director's liability:

Directors should be aware of key banking and other laws and regulations under which a director may face personal liability in the performance of his or her duties and responsibilities. A director can obtain some protection against large financial losses through indemnification agreements and liability insurance.